

ORDER NO. 3559

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton; and
Tony Hammond

Periodic Reporting
(Proposal Three)

Docket No. RM2016-11

ORDER CLOSING DOCKET

(Issued October 7, 2016)

I. INTRODUCTION

The Postal Service, in a petition filed pursuant to 39 C.F.R. § 3050.11, seeks Commission approval of a proposed change in an analytical principle relating to the Postal Service's periodic reports.¹ On September 28, 2016, the Postal Service filed a notice informing the Commission it is withdrawing its Petition.² The Notice of

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three), August 22, 2016 (Petition).

² Notice of the United States Postal Service of Withdrawal of Proposal Three, September 28, 2016 (Notice of Withdrawal).

Withdrawal renders the proceeding to consider the Petition moot. As a result, the docket is closed.

II. PROCEDURAL HISTORY

On August 22, 2016, the Postal Service petitioned the Commission to initiate a rulemaking proceeding to consider Proposal Three, which concerns a change relating to the design and operation of the In-Office Cost System (IOCS). Petition at 1. Proposal Three seeks to change the IOCS city carrier sampling methodology used to estimate in-office costs. The Petition provides a detailed description of Proposal Three. The Postal Service also filed redacted and unredacted supporting materials that include detailed costing information identifying product-level impacts of Proposal Three.³

On August 26, 2016, the Commission issued Order No. 3489 establishing the instant docket to consider the Petition, designating a Public Representative to represent the interests of the general public, and establishing a deadline for filing comments.⁴

Chairman's Information Request No. 1 was issued on September 9, 2016.⁵ On September 16, 2016, the Postal Service partially responded to CHIR No. 1.⁶

³ Notice of Filing of USPS–RM2016–11/1, USPS–RM2016–11/NP1, and Application for Nonpublic Treatment, August 22, 2016.

⁴ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Three), August 26, 2016 (Order No. 3489).

⁵ Chairman's Information Request No. 1, September 9, 2016 (CHIR No. 1). On September 6, 2016, the Public Representative filed a motion for issuance of information request. Public Representative Motion for Issuance of Information Request, September 6, 2016. Pertinent questions were incorporated into CHIR No. 1.

⁶ Responses of the United States Postal Service to Questions 1-8, 11-13, 15, 18.a-c, and 21 of Chairman's Information Request No. 1, September 16, 2016 (Responses to CHIR No. 1). The Postal Service filed public and non-public materials in support of its Responses to CHIR No. 1. Notice of Filing of USPS–RM2016–11/2, USPS–RM2016–11/NP2, and Application for Nonpublic Treatment, September 16, 2016; Library Reference USPS–RM2016–11/2, September 16, 2016.

Chairman's Information Request No. 2 was issued on September 22, 2016.⁷ Two parties requested access to the non-public library references.⁸

On September 28, 2016, the Postal Service filed a notice informing the Commission that it is withdrawing Proposal Three. Notice of Withdrawal at 1.

III. PROPOSAL THREE

Current methodology. The current IOCS sampling design has several stages for randomly selecting sample readings. See Petition, Proposal Three at 1. First, the current IOCS sampling methodology randomly selects offices.⁹ Second, it randomly selects an employee within the sample office. USPS–FY15–37 at 5. Third, it randomly selects a time from the employee's workday within the selected week for the employee observation. *Id.* at 7. This three-stage selection process results in "an observation that represents a 'snapshot' of the work activities in a sampled interval." Petition, Proposal Three at 1. Currently, data collectors conduct readings throughout the workday to estimate city carrier time while on the street and while engaged in various types of in-office activities. *Id.* at 1-2. The Postal Service uses these data to divide total accrued city carrier costs between cost segments 6 (city carrier in-office time) and 7 (city carrier street time). USPS–FY15–37 at 2-3.

Proposed methodology. The Postal Service proposes "a change in [IOCS] methodology for sampling city carriers for in-office costs." Petition, Proposal Three at 1. Specifically, the Postal Service proposes to replace the current IOCS readings, which

⁷ Chairman's Information Request No. 2, September 22, 2016 (CHIR No. 2).

⁸ Revised Motion of Amazon Fulfillment Services, Inc., for Access to Library Reference USPS–RM2016–11/NP1, September 21, 2016 (AFSI's Motion); United Parcel Service, Inc.'s Motion for Access, September 23, 2016 (UPS's Motion). The Commission granted AFSI's Motion on September 22, 2016. Order No. 3527, Order Granting Motion for Access to Non-Public Materials Filed Under Seal, September 22, 2016. Because the Postal Service withdrew Proposal Three from consideration, the Commission denies UPS's Motion as moot.

⁹ See Docket No. ACR2015, Library Reference USPS–FY15–37, December 29, 2015, "USPS–FY15–37.pdf" file, at 3.

are conducted throughout the workday, with on-site IOCS-Cluster readings conducted in the morning. *Id.* at 1, 5-7. The Postal Service's proposed IOCS-Cluster sampling methodology also discusses the treatment of afternoon in-office time and carrier in-office time clocked to Special Purpose Routes (SPRs). *Id.* at 7-11.

Morning in-office hours. The Postal Service proposes two new sampling modes to measure carrier in-office times before 11 a.m. *Id.* at 5-7. Sampling Mode 1 is the primary sampling mode of the proposed IOCS-Cluster methodology and is used for on-site readings of zones with six or more routes.¹⁰ Under Sampling Mode 1, data collectors use a randomized list of carriers to conduct on-site readings of carriers assigned to the selected zone on the selected day. *Id.* Data collectors then repeat the sequence until 11 a.m. or until all carriers have left the office. *See id.* at 5 n.2. Because data collectors repeat the sequence, there may be multiple readings on the same carrier over the course of the morning. *Id.* at 5.

The Postal Service states that data collection policy prohibits conducting IOCS-Cluster readings on a single carrier within 20 minutes of the previous reading. *Id.* at 6. As a result, the Postal Service states that it expects a small number of readings at sampling zones that have five or fewer routes and that the small number of readings does not justify sending a data collector to conduct on-site readings. *Id.* Accordingly, the Postal Service proposes a different sampling mode for zones that have five or fewer routes. *Id.* For zones with five or fewer routes, the Postal Service proposes that data collectors synchronize IOCS-Cluster readings with City Carrier Cost System (CCCS) tests. *Id.* When the CCCS is testing a route that belongs to a zone with five or fewer routes, IOCS-Cluster readings will be scheduled for the same day. *Id.* Under this sampling mode, data collectors perform CCCS tasks for 20 minutes and IOCS-Cluster readings for 10 minutes for every half hour. *Id.* Synchronizing these tests will space out

¹⁰ *Id.* at 5. The IOCS-Cluster design selects zones in proportion to their number of in-office hours. *Id.*

the IOCS-Cluster readings throughout the morning so that multiple readings are not conducted for a single carrier within minutes of the previous reading. *Id.*

Afternoon in-office hours. The Postal Service states that “[c]arriers spend relatively little time in the office after the initial morning casing work.” *Id.* at 7. Additionally, the Postal Service states that “the large majority of in-office time in the afternoon is devoted to various non-handling activities.”¹¹ Accordingly, the Postal Service recommends treating all afternoon in-office time as support time, and, therefore, proposes to conduct no readings in the afternoon. *Id.* at 3. Alternatively, the Postal Service suggests that data collectors conduct telephone IOCS-Cluster readings for a randomized sequence of carriers for a one-hour period in the afternoon. *Id.* at 9.

Special Purpose Routes. The Postal Service states that, when compared to carriers clocked to letter routes, carriers clocked to SPRs spend relatively little time in the office. *Id.* at 10. As a result, the Postal Service states that it is difficult to collect in-office time data for SPR carriers. *Id.* Accordingly, the Postal Service recommends treating all SPR in-office time as a support activity for street time and distributing SPR in-office costs with the same distribution key used to distribute SPR street time.¹²

Other changes. The Postal Service also proposes other changes to IOCS measurement. For example, the Postal Service proposes a change in methodology for distributing mixed mail costs back to products. *Id.* at 12. The current methodology for distributing mixed mail costs to products uses Cost Ascertainment Group (CAG) information to develop the amount and type of mixed mail costs and their distribution.¹³ However, the Postal Service explains that because IOCS-Cluster design does not use

¹¹ *Id.* at 7-8. The Postal Service defines “afternoon” as the period after 11 a.m. *Id.* at 7 n.4.

¹² *Id.* Alternatively, the Postal Service suggests sampling SPR carriers as part of the proposed IOCS-Cluster sampling methodology. *Id.* Thus, data collectors will sample all SPR carriers at the facility when the data collectors conduct IOCS-Cluster readings. *Id.* Additionally, because the proposed IOCS-Cluster sampling design does not include testing on Sundays, the Postal Service recommends treating Sunday in-office costs for SPR carriers as a support activity. *Id.* at 11.

¹³ Docket No. R2006-1, Library Reference USPS–LR–L–9/R2006-1, May 3, 2006, Appendix A at A13, A57.

CAG, it proposes distributing mixed mail costs by route group and basic function only. Petition, Proposal Three at 12. Additionally, the proposed IOCS-Cluster sample design does not include testing on Sundays. *Id.* at 11. The IOCS-Cluster data collector instructions also introduces new rules that apply to IOCS readings, such as limiting the readings to the inside of the facility or ending a telephone reading if the employee does not come to the phone within three minutes.¹⁴

Rationale. The Postal Service notes that “[t]he primary objective of this proposal is to replace telephone readings with on-site readings.” Petition, Proposal Three at 15. The Postal Service states that Proposal Three will “[improve] data quality [because it obtains] far more data from on-site rather than [from] telephone readings.” *Id.* at 1. Additionally, the Postal Service states that the “proposed IOCS-Cluster system collects data efficiently” and clusters readings to when there are a large number of carriers in the office. *Id.* at 15. Furthermore, the Postal Service provides that Proposal Three will improve “sampling efficiency” and that “[b]oth of the on-site sampling modes of IOCS-Cluster are much more efficient than the current non-cluster system.”¹⁵

Impact. The Postal Service states that the Proposal Three pilot data indicate some significant shifts in product costs. *Id.* at 17. Specifically, the Postal Service notes that city carrier in-office costs for First-Class Mail letters decrease, while measured in-office costs are projected to increase for a number of products, including parcel-shaped products, Bound Printed Matter, Periodicals, Standard Mail, and international mail. *Id.*

¹⁴ *Id.* at 9; USPS–RM2016–11/2, “ChIRQ04” folder, “IOCSClusterInstructions 23Oct2015 Clean” file, at 4.

¹⁵ *Id.* at 15-16. The Postal Service defines sampling efficiency as “the percentage of readings where the carrier is in the office compared to the number of attempted readings.” *Id.*

IV. COMMISSION ANALYSIS

A. Relationship Between Proposal Three and Proposal Nine

Proposal Three is closely related to a prior Postal Service proposal, Proposal Nine, filed in Docket No. RM2015-2.¹⁶ In Proposal Nine, the Postal Service sought to utilize the Time and Attendance Collection System (TACS) to develop in-office time and street time, replacing the current IOCS methodology. Proposal Nine at 1. Although the Commission had not yet issued its final order in Docket No. RM2015-2 when the Postal Service filed Proposal Three, the Postal Service stated that Proposal Three's IOCS-Cluster sampling methodology was made possible by Proposal Nine's use of TACS data to replace the IOCS estimated in-office/street time split. Petition, Proposal Three at 2.

In CHIR No. 1, the Commission requested clarification on whether Proposal Three depends on the prior approval of Proposal Nine. CHIR No. 1, question 2. The Postal Service responded that "[i]t is not possible to implement [Proposal Three] without acceptance of Proposal Nine." Response to CHIR No. 1, questions 1.a-b and 2. The Postal Service explained that the in-office/street time split proposed in Proposal Nine is necessary to implement Proposal Three's IOCS-Cluster sampling methodology. *Id.* question 1.a-b.

On September 22, 2016, the Commission denied Proposal Nine.¹⁷ In CHIR No. 2, the Commission requested confirmation that the Postal Service planned to withdraw Proposal Three. CHIR No. 2. On September 28, 2016, the Postal Service filed a notice informing the Commission it is withdrawing Proposal Three. Notice of Withdrawal at 1.

¹⁶ See Docket No. RM2015-2, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Nine), October 31, 2014, Proposal Nine (Proposal Nine).

¹⁷ Docket No. RM2015-2, Order No. 3526, Order Denying Changes in Analytical Principles Used in Periodic Reporting (Proposal Nine), September 22, 2016.

The Notice of Withdrawal renders the proceeding to consider Proposal Three moot. As a result, the docket is closed.

B. Potential Proposal Three Issues

As stated above, because the Postal Service has withdrawn Proposal Three from consideration, the Commission closes this docket. However, during its preliminary review of Proposal Three, the Commission identified several potential issues and suggests that the Postal Service address them should the Postal Service file a proposal similar to Proposal Three in the future.

Accurate results. In Order No. 3526, the Commission noted that Proposal Nine's proposed elimination of street and training time from IOCS sampling estimation and relying on the TACS/Management Operating Data System (MODS)/FORM 3999 workhours to develop costs could potentially understate or misallocate time and associated costs to cost pools. Order No. 3526 at 37. A preliminary review of the supporting documents filed with Proposal Three suggests that eliminating street and training time from IOCS sampling estimation could potentially understate or misallocate time and associated costs. For example, it appears that the proposed changes may result in a large increase in training costs.¹⁸ Additionally, it appears that the proposed changes may result in large reductions in annual costs for "checking the vehicle" activity

¹⁸ In FY 2015, annual training costs were \$74.7 million. For FY 2016, Quarters 2 and 3, the IOCS-Cluster pilot test data report \$72.8 million in costs for this activity. Compare Docket No. ACR2015, Library Reference USPS-FY15-32, December 29, 2015, "I-FORMS-Public-FY15.xlsm" file, "I-CS06.1 Input" tab in cell E13 with Library Reference USPS-RM2016-11/1, "IOCSClusterFolder_Public" folder, "I_FORMS-FY16Q2Q3-Cluster.xlsm" file, "I-CS06.1 Input" tab in cell E13.

costs¹⁹ and breaks/personal time activity costs.²⁰ Should the Postal Service file a similar proposal in the future, the Postal Service should evaluate and provide the reasons for differences in costs obtained under the current IOCS methodology and under the proposed IOCS-Cluster sample design.

Sampling efficiency. In the Petition, the Postal Service states that the “primary objective” of Proposal Three is to “replace telephone readings with on-site readings.” Petition, Proposal Three at 15. However, the Postal Service does not adequately explain the deficiencies related to the current IOCS methodology or how on-site IOCS-Cluster readings will address these deficiencies. See 39 C.F.R. § 3050.11(b). The Postal Service states that the IOCS-Cluster sampling methodology will result in improved sampling efficiency. Petition, Proposal Three at 15-16. However, the Postal Service does not discuss how the improved sampling efficiency will result in more accurate or complete cost estimates. Accordingly, should the Postal Service file a similar proposal in the future, the Postal Service should provide a more detailed explanation of how the proposed changes will correct identified deficiencies in the current methodology.

Proposed changes to cost allocation and distribution methodology. The Postal Service states that, for letter routes, the majority of carrier afternoon in-office time is support activities rather than mailpiece handling activities. Petition, Proposal Three at 8. Accordingly, the Postal Service recommends treating all afternoon in-office time as support activity. *Id.* Similarly, the Postal Service states that SPR carriers spend

¹⁹ In FY 2015, annual checking the vehicle, keys, accountables, or attending a safety meeting activities costs were \$325.5 million. For FY 2016, Quarters 2 and 3, the IOCS-Cluster pilot test data report \$55.3 million in costs for these activities. Compare Docket No. ACR2015, Library Reference USPS–FY15–32, “I-FORMS-Public-FY15.xlsm” file, “I-CS06.1 Input” tab in cell E12 with Library Reference USPS–RM2016–11/1, “IOCSClusterFolder_Public” folder, “I_FORMS-FY16Q2Q3-Cluster.xlsm” file, “I-CS06.1 Input” tab in cell E12.

²⁰ In FY 2015, annual breaks/personal needs time costs were \$399.6 million. For FY 2016, Quarters 2 and 3, the IOCS-Cluster pilot test data report \$87.5 million in costs for this activity. Compare Docket No. ACR2015, Library Reference USPS–FY15–32, “CS06&7Public-FY15” file, “6.03” tab in cell E14 with Library Reference USPS–RM2016–11/1, “IOCSClusterFolder_Public” folder, “CS06&7-FY16Q2Q3-Cluster.xlsx” file, “6.0.3” tab in cell E14.

relatively little time in the office and that when in the office, SPR carriers spend little time handing mailpieces. *Id.* at 10. The Postal Service recommends treating SPR in-office time as support activity for SPR street time and distributing SPR in-office costs using the same distribution key as for SPR street time. *Id.* However, for both afternoon in-office time and for SPR in-office time, because there are different types of office activities and support activities, it is unclear whether Proposal Three accurately allocates and distributes these costs. Accordingly, should the Postal Service file a similar proposal in the future, the Postal Service should provide a more detailed justification for changing cost allocation and distribution methodologies for afternoon in-office time and SPR in-office time.

Proposed treatment of CAG data. The changes in analytical principles outlined in Proposal Three may impact city carrier supervision of clerks costs. In Order No. 2837, the Commission conditionally approved the combined IOCS sampling of CAG H-L post offices.²¹ To ensure sufficient representation of CAG K-L post offices in the combined IOCS strata, the Commission directed the Postal Service to submit details of the combined IOCS sample selection separately for CAG K-L offices until directed otherwise in an Annual Compliance Determination or Commission Order. Order No. 2837 at 10.

In Proposal Three, the Postal Service states that the IOCS-Cluster sample “design does not use CAG.” Petition, Proposal Three at 12. It is unclear whether there will be adequate representation of CAG K-L offices under the proposed sampling design. Should the Postal Service file a similar proposal in the future, the Postal Service should provide detailed information that allows the Commission to assess the proposal’s impact on the Commission’s conclusions in Order No. 2837.

²¹ Docket No. RM2015-19, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Ten), November 24, 2015, at 10 (Order No. 2837).

V. CONCLUSION

On September 28, 2016, the Postal Service filed a notice informing the Commission it is withdrawing Proposal Three. The Notice of Withdrawal renders the proceeding to consider Proposal Three moot. As a result, the docket is closed.

VI. ORDERING PARAGRAPH

It is ordered:

Docket No. RM2016-11 is closed.

By the Commission.

Ruth Ann Abrams
Acting Secretary